# A CRITICAL STUDY OF GOVERNMENT TRADING IN INDIA WITH SPECIAL REFERENCE TO EXPORT OF IRON-ORE AND IMPORT OF NEWSPRINT

DISSERTATION

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BY

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Certified that the dissertation entitled " A CRITICAL STUDY OF GOVERNMENT TRADING IN INDIA WITH SPECIAL REFERENCE TO EXPORT OF IRON - ORE AND IMPORT OF NEWSPRINTS", which is being submitted by Mr. Syed Arif Hasan in partial fulfilment of the requirement for the award of the degree of ~~the~~ Master of Business Administration of the Aligarh Muslim University, Aligarh, is a record of the student's own work, carried out by him under my supervision and guidance. The matter embodied in the dissertation has not been submitted for the award of any degree or diploma.

( S.M. OZAIR )
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C O N T E N T S

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# P R E F A C E

Over the last three and a half decades, there has been a steady increase in direct involvement of Government in the foreign trade operations of our dountry. By this increased involvement it expects to achieve a large number of objectives consistent with its overall economic policy. Therefore, direct entry in foreign trade of India by the Government has acquired importance among the trade policy instruments.

The increased Government handling of foreign trade has grown substantially over the years not only in terms of volume of business of imports and exports but also in terms of large number of commodities in exports and imports that the Government is handling. Moreover, in some commodities the Government of India is the sole buyer and the sole seller.

This pre-eminent position of Government in the foreign trade has naturally raised a large number of issues pertaining to the efficacy of the instrument of Government trading in achieving stipulated objectives.

The present study examines in detail various objectives, coverage, trading practices and organisational structure of Government Trading in India. Since a large number of commodities are traded, it has been considered necessary to study in detail Government Trading in two commodities - one on export and the other on import to understand various aspects such as procurement, supply, marketing and other relevant activities.

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# I N T R O D U C T I O N

# GOVERNMENT TRADING IN INDIA

## INTRODUCTION

Government trading as an instrument of trade policy is playing an important role in the foreign trade policy of many developing countries including India. The effectiveness of this instrument in achieving its objectives can, of course, be assessed only when a detailed study of the operation of Government trading in a specific situation is made.

The direct participation of the state in India's foreign trade of the country has increased over the last thirty years in India. As a result of a series of decisions made by the Congress Party, the role of the Government in foreign trade has assumed a dominant position. Thus, one of the most critical sectors of Indian economy, i.e., foreign trade, came considerably under Government handling.

This subject, therefore, has attracted attention. In these investigations, one comes across a number of questions being posed some of which are being answered. But no comprehensive examination of this important instrument of trade policy has been made.

The Estimates Committee and the Public Undertakings Committee have reviwered various aspects of Government trading and have pointed out periodically some of the lapses and achievements on the part of Government trading agencies. Their reports however, do not provide a comprehensive review of Government trading. A detailed investigation into various aspects of trading, process of decision making and achievements of Government trading in relation to the objectives set out by theGovernment in entering ~~to the~~ trade in specific commodities, has not yet been made.

The studies made by researchers in India also have limitations. The authors of these studies tend either to examine a particular organisation and its historical evolution or to evaluate Government trading and its effectiveness in general.

Further, in order to improve the effectiveness of Government trading, the Government as well as the various trading agencies have appointed a number of commodities consisting of eminent planners and experts to review the functioning of certain state trading agencies. These committees have, very often, confined their investigations to a specific organisation or a specific issue. Although some of these studies are supported by intensive investigation of certain commodities traded by these Government agencies, they are not open to public scrutiny. As a result, one does not get a detailed understanding of the subject.

Apropos the review of the literature in the field indicates that there is no comprehensive study to throw significant light on a large number of issues pertaining to Government trading such as objectives, coverage, organisational pattern, policies and trading methods adopted in various commodities and their effectiveness in achieving the set objectivies. A comprehensive study of the subject would have four-fold utility:

i) it will provide a comprehensive analysis of the evolution, character, organisation and policies of Government trading in India;

ii) it is expected to provide overall review of prevailing organisational pattern of Government trading in determining the effectiveness of trading.

iii) a detailed study of various commodities as handled by the Government departments/agencies is expected to throw light on various aspects of Government trading which will be useful to Government as well as to its agencies; and

iv) it will also help to refute or to confirm the criticism normally made against Government trading as such.

A few question which pertain to general problems of Government trading are:

i) Does Government trading constitute an important element of foreign trade planning ?

ii) Whether the present organisational structure is suitable to achieve the general objectives of Government trading ?

iii) Is there any difference in decision-making with regard to trading at departmental level and at corporate level ?

iv) What has been the relationship between various trading organisations of the Government ?

v) What has been the role of the Government policies in determining the scope and the character of its trading ?

Two commodities i.e. export of iron ore and import of newsprint has been studied to answer the following question

i) When did the Government decide to canalise a product either for import or export ?

ii) What is the character of the product ?

iii) Were there any specific objectives with regard to canalisation ? If so, which of them have been important.

iv) What is the modality of canalisation of product partail or complete ?

v) Which agency has been entrusted trading in the commodity and why ?

vi) What has been the relationship between the Ministry of Commerce and the agency trading in the canalised product ?

vii) How long has it been canalised ?

viii) What have been the purchasing/selling policies and practices of the agency dealing with canalised product ? These include product information, suppliers/buyer's list, floating of tender, pricing, distribution, production etc.

ix) To what extent have these methods enabled the entrusted agency to achieve its objectives ?

x) To what extent are the methods in conformity with normal practices followed in trading of the commodity ?

xi) If yes, identify the areas of strength of Government trading; if not, identify the areas of its limitations.

## METHODOLOGY

The methodology that has been adopted in this study comprises three main compenents:

i) Study of Literature

(a) The review of published literature on the subject; this includes Lok Sabha debates, reports of the Estimates Committee and Public Undertakings Committee; and

(b) The review of available unpublished literature on the subject which includes special research and consultancy reports.

ii) Field Investigation

The burden of collecting information, has fallen on personal interviews with the officials and executives of various trading eorganisations. Hence, the major source of information has been the field investigations.

In order to make detailed commodity analysis, had to rely heavily on the cooperation of various agencies for providing detailed information about trading as pursued by them with regard to specific commodities. This information on commodities had been essentially drawn from the interviews and field studies that has been made by me with the executives in these agencies. This has been supplemented, however, by published material wherever available.

iii) <u>Selection of Products</u>

It would be impossible to study all the items entering into Government trading. Hence, a commodity each in export and import has been covered i.e exports of Iron-ore from India and Imports of news-prints to India.

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# CHAPTER-I

# GOVERNMENT TRADING CONCEPTS

## I. GOVERNMENT TRADING CONCEPTS

It is necessary to clarify certain terminological issues. At the outset, it must be stated that this study is concerned with government trading in foreign trade. Normally, Government trading and state trading are used as synonyms. It has been found desirable to use "Government Trading" in preference to "State Trading" for three main reasons. Firstly, Government Trading comprehends all the trade that is being conducted by the Government either at a departmental level or at a corporation level. Secondly, huge purchases made for stores will also be covered under this. And finally, in India the existence of a corporation with a name state Trading Corporation having a large turnover of trade, often creates confusion of identifying all Government trading with the operation of State Trading Corporation of India, thus, distorting the picture.

Government trading as aninstrument of Governments economic policy in free market economies has its origin in the inter-war period. With the onset of GreatDepression, the fundamental weakness in the world economic structure quickly became apparent. Some of the major weaknesses were the hiatus created between prices of agricultural commodities and industrial products and the use of international capital flows in adjusting balance of payments. This resulted in drastic decline in the price and volume of exports of raw materials and foodstuffs. The heavy international debt and unemployment compelled the countries to seek redress from this burden. In this context each country sought to protect its national economy against further accentuation of the depression by various devices. Most of these methods involved direct regulation of economic activity by the Government. Foreign trade was the most important element in which government's direct entry played a curcial role. The devices of Government regulations and entry consisted primarily of exchange controls, import quota system and Government monopolies in foreign trade. Thus Government trading was evolved as an instrument of trade policy.

The emergence of the Soviet Union with complete state monopoly of foreign trade during this period also gave a status to direct intervention of state into foreign trade. It also raised issues of relationship between free enterprise economies and economies with Government trading which is being discussed even today.

Government trading has been defined as a state of affairs when the Government itself is the trader and conducts the trading operations through its own agencies, including those trading activities in which the Government (or its agent) holds the title to exports before transactions and acquires title to imports. This definition excludes reference to any other policy measures of the state which are expected to operate on exporting and importing such as quotas and exchange controls.

Normally, in this deinition imports of Government for its own use will not be included. But, in the present study such a clear cut distinction between imports for resale and imports for its own use cannot be made. In India, the Government has entered into economic activity on a large scale. As a result, its imports either for stores, for resale or for use in manufacturing activity for its subsequent sale cannot be easily distinguished. Since one of the objectives of the Government trading in India is the economical utilisation of foreign exchange, the operations at departmental level including import of stores can be included in the study.

According to Robert Loring the Government trading exists when the Government, determines the kinds and quantities of goods traded as well as their geographical distribution and negotiates prices and terms of contracts without taking recourse to direct organisational treatment. There could be many cases where private traders are guided by the Government. But this is also not included in our definition, unless the

Theoretically, the functions of Government trading have often been viewed as purely an instrument of trade policies. For regulation of imports can be achieved by substituting Government trading by quantitative restrictions exchange controls and tariffs. Thus, very often it is a substitute and a supplement to other measures such as quotas, exchange controls etc.

According to JE Meade, State by monopolising of exports may limit the quantities to be exported, thus absorbing the margin between the relatively low home supply price and the relatively high foreign demand price. In this way, state trading monopolies by restricting the volume of imports and exports and by themselves absorbing the monopoly profits can have substantially the same effects in reducing the volume of trade as can be achieved by a system of import or export taxes and licenses.

Government trading can be used for expanding import and export trade in a way which would result from the payment of import or export subsidies. For instance, aGovernment trading corporation can purchase larger quantities from domestic market than a private trader can. "If the elasticity of the foreign demand for the exports is greater than unity, the total amount of foreign currency, obtained for exports will be increased because the price in the foriegn market will fall less than in proportion to the increase in the amount exported. But the price in the foreign market will in any case fall somewhat as a result of the increase in the amount put as to the foreign market and the state export organization will make a loss on its exports. This loss will correspond to the export subsidy which is a regime of private trade would have been necessary to provide this increased exports".

Similarly, the state enterprise can purchase a larger quantity of imports than the ordinary importers would under competitive conditions and put it on sale in the home market at a loss. This loss would correspond to the import subsidy which would be necessary to promote this increased quantity of imports.

The interpretation of Government or state trading as an instrument of trade regulation has been criticised. State trading has been, on the other hand, construed as purely a barrier to trade. It is significant to note that this analysis dates back to forties when various new instruments of trade policies designed in the inter-war period were examined. According to Jacob Viner, ".... it is well known that governments rarely follow the rule of buying in the cheapest market without regard to any other consideration.

In the first place, governments not only commonly make themselves subject to or are by legislation made subject to the payment of the ordinary tariff duties on commodities purchased by or for them, but they ~~duties on commodities purchased~~ frequently go beyond this as a matter of administrative practice, or as in the United States, in accordance with statutory requirements, and give to domestic source of supply additional substantial preferences with respect to prices when necessary to put them beyond the reach of competitions from supplies from foreign sources. The shift of economic activity from private to Government auspices thus tends automatically to increase the barriers to foreign trade".

The GATT has accepted this interpretation on Government trading and has treated it as a barrier to trade. In the articles of the GATT, state trading is included in the Part-II. The objectives of GATT articles in Part-II are to eliminate barriers to trade. So article XVII states that each contracting party undertakes that it establishes or maintains a state enterprise, wherever located or grants to any enterprise formally or in effect, exclusive or special privileges, such enterprise shall in its purchases or sales involving either imports or exports, act in a manner consistent with the general principles of non-discriminatory treatment prescribed in the agreement for governmental measures affecting imports and exports of private traders.

This role of Government trading as a barrier to trade has been emphasised because of two major assumptions. First, the Government has a strong tendency to be guided by non-commercial considerations as understood ~~to be guided by~~in a private enterprise economy, and secondly, Government by virtue of direct entry into trading will carry out a sort of explicit of implicit monopoly with it which results in restrictions to trade. As to the latter, it has been argued that monopoly can exist even when private traders organise cartels. But this is considered as exceptional.

The above discussion has normally taken place in the context of an advanced economy taking recourse to Government trading in specific difficult balance-of-payments situations. In the advanced economies, Government trading has been used for various other reasons, such as price stabilisation, protecting the interest of farmers, fiscal reason and also moral considerations. It is, necessary to restate issues in the context of Government trading in develpping countries. They can be summarised as follows.

i) Government Trading as an Instrument For correcting Balance of Payments

By monopolising imports and exports, state can control the flow of goods, i.e., either regulating imports or ~~thus~~ promoting exports. Thus, state may reduce its dependence on private sources to operate these sectors. State can import the necessary volume of goods at international prices and sell it at the domestic market price and thus mop up windfall profits from the private sources and transfer it to the public exchequer. It can be argued that this can be done be adjusting tariff levels. However, tariffs may not always achieve the objectives because the effect of tariffs can be neutralized by a number of factors beyond the control of the state. Further, international obligations and other bindings may not provide the instrument of tariffs sufficient flexibility to do the job. Similarly, state trading by monopolising exports may sell goods at international prices and bear the loss arising out of the difference in domestic price sometimes costs and international prices and thus make the country's balance of payments viable by expanding exports.

ii) Government Trading for Saving Foreign Exchange

Very often, the importer of a developing economy is likely to pay a higher price because of small volume of his purchases and also because of his inability to understand adequately the international mardet for various goods. As a result, this leads to a wastage of foreign exchange resources. By buing in bulk, the state may bargain effecting for betterprice than otherwise and get other advantages of bulk buying.

The scarcity of foreign exchange normally leads to the introduction of various regulatory measures. The implementation of these measures, however, is not normally effective for want of proper administrative set up. In this context, there is always a tendency to acquire and dispose of foreign exchange by many illegal means. Thus, it leads to malpractices in fpreign exchange dealings. Government trading in foreign trade may stop malpractices as well as leakages in foreign exchange.

iii) Government Trading for Import Substution

If the objective of trade policy is restriction of imports of goods competing with certain brochure industries, Government trading may be used very effectively for this purpose. Although protective tariffs can achieve the same objective, it is possible that the protective tariff level may be less than that warranted by the needs of the protected industries. Further, changing the levels of pootective tariffs to keep pace with the inflationary growth of domestic prices is a time consuming process. In some cases, importers may take advantage of weakness in administrative and customs nomenclature and import competing goods and thus defeat the very purpose of imposing protective tariff. Government trading may be in a position to achieve import volume consistent with objective of protection more easily than other instruments of it is not guided by mere profit motive. With Government trading there would be no scope for exploitation of administrative and other weaknesses.

Government Trading for Growth Oriented Imports

Under Government trading, it is possible for the government to import just what is needed for the economy from the growht point of view. The composition of imports can be easily controlled and determined by the state.

Government Trading for Export Promotion and Diversification

In a developing economy, export activity is often unattractive because of various reasons. First, the existence of a sellers' market at home prevents the generation of exportable surplus, secondly, the wide gap between domestic price and international price makes exporting unattractive; thirdly, they do not develpp adequate marketing strategy; and finally, the diversification of exports is more difficult and unattractive. Encouraging the private traders to export by overcoming all the constraints calls for an extensive organisational set-up and payment of substantial subsidies.

Therefore, it is argued that state by entering into exports may avoid all this and make the export activity more effective.

Government trading may also help to promote new products by exporting them at a loss sepecially in the initial period. Similarly, state may create a new market for exports because of its greater capacity to bear initial losses than private enterprises.

To be effedtive in international marketing two important conditions have to be fulfilled; (a) large capacity to supply in a sustained manner to foreign markets the needed products; and (b) substantial and viable resources. For, in the international marketing, one has to cope with gaint international companies. A developing economy lacks both these requirements. Government may overcome these deficiencies by direct entry into trading. It can support samll units through finance, and other facilities to augment their production effort. At times, it may enter into production in a big way for exports. It can build a viable marketing organisation to cope with challenges of international marketing.

In some cases, where exports consist of bulk commodities which call for a complete planning of marketing including production and shipment of goods. State with its vast resources and capacity to bear initial losses may be in a position to do the job better. In those cases where bulk selling can increase the foreign exchange resources, Government trading may be a better instrument.

To deal with centrally planned economies which have state trading with monopoly and monoposonistc character, Government trading organisation is expected to do the job more efficiently.

If exports consist of commodities subject to wide fluctuations in demand Government trading can provide a good base for building up facilities for warehouses, etc. This can insulate the country's economy from these fluctuations.

# CHAPTER-II

## GOVERNMENT TRADING IN INDIA AS AN INSTRUMENT OF TRADE POLICY

## GOVERNMENT TRADING IN INDIA AS AN INSTRUMENT OF TRADE POLICY

### i) HISTORICAL EVOLUTION

Government trading in a nebulous way had its origin as early as 1860 when the India Stores Department was established in London for puchases of imported stores. With the outbreak of First World War, the then existing Indian Industires were strained to a great extent and the Government of India had to think in terms of laying down an industrial policy for the country. Consequently, an Industrial Commission was appointed in 1916, That Commission, while suggesing that the Government should play an active part in the industrial development of the country, also recommended the creation of an organisation for the purchase and inspection of Government stores in India.

The recommendations of the Indian Industrial Commission led to the appointment of a Stores Purchase Committee in 919. This Committee recommended the establishment of an expert purchasing agency equipped with facilities of an expert purchasing agency equipped with facilities for indentifying the manufactruing sources throughout the country, and should be able to purchase efficiently and competent to carry out such inspection as might be necessary. The main work of the Indian Munitions Board ended with Armistis. There upon, an expert purchasing agency with the name of

India Stores Department was establised at Delhi in January 1922 under the Department of Industry. This Department was made increasingly responsible from time to time for purchase for the Government Civilian Departments, while the Contracts Directorate effected purchase for the Army except in regard to a few common user items which were transferred to the India Stores Department. With the setting up of India Stores Department at Delhi, the organisation of DGISD, London, was made a branch of the Delhi office functioning under the High Commissioner for securing of such stores as could not be purchased in India. Besides, the Provincial Governments were also advised to utilise the services of this Department. Different bodies, such as company managed railways, port trusts, municipalities were also free to take the benefits of the services of the India Stores Department.

The India Stores Department slowly extended its activities. Initially, its total purchases including imports didnot exceeds Rs.165 lakhs. But in 1930-31, it stood at Rs.429 lakhs. A large number of Government departments and public undertakings like railways also began taking advantage of this organisation.

The clouds of the Second World War were looming large on the horizon. This led the Government of India to take a decision with regard to the setting up of a full-fledged

Department of Supply to look after the heavy purchase War requirements, including the indents from the UK Government and Governments of other allied countries. The contracts Directorate and the India Stores Department both the purchasing agencies were placed under the charge of a newly created Department of Supply. Meanwhile, the Government of India also set up a War supply Board to ensure that supplies of all kinds of War stores were available with the utmost speed and to coordinate the activities of all departments of the Government of India and the commercial firms or Organisations.

As the War began to spread, India with its vast resources became the main reservoir of supplies for the entire War zone extending from the Mediterranean to the Pacific. In spite of its natural resources, India's actual production of many of the certain essential material like plant machinery, etc. from abroad. The War made supplies of these materials difficult from European and other Eastern Group Countries. America, with its vast natural and industrial resources, was in a position to supply the required material for the successful prosecution of War. This situation led the Government of India to a decision for having their own agency in the USA, for obtaining vital supplies and consequently the agency took birth as India Purchasing Mission in July 1941 with headquarters at New York. With wider scope of its functions, the name of the Mission was changed in 1942 to India Supply Mission and its headquarters shifted to Washington. This mission had to work in close consultation with the British Purchasing Mission and was considered as a Liasion Office between the Supply Department, US Government and the American Trade.

After Independence, the duties and responsibilities of the Government towards the citizens had considerably changed. Ever since the setting up of the Central Purchase Organisation and its development from time to time, its main functions had been the procurement of stores for the prosecution of the two great wars. Other important function which the Central Purchase Organisation was expected to perform, viz., the development of industry which had become a secondary consideration. There had been no comprehensive review of the activities of the Central Purchase Organisation since long and Government felt the necessity of consideringw whether the existing organisations for, and the method adopted in, purchasing stores in India and abroad were adequate to deal range and variety of stores which have to be purchased having regard to the expanding activities of the modern democratic state. The volume, value, variety and complexity of stores which had to be purchased had undergone considerable change and it was essential that the Purchase Organisation should be able to secure the requirements of Government without unduem delay and with due regard to development of Indian industries and economy expeditiously. It was essential that there should be careful planning of requirements by users, and purchase, inspection and payments to contractors for stores supplied.

While in the above state of developments, import constituted only a part of Government purchasing activity, the idea of Government entering directly into foreign trade acitivity dealing with imports and exports was again mooted during the War. At that time, it was also felt necessary to establish a separate agency to look into governmental trading. This suggestion emanated in a curious way. It was first made during the War by the Indian commercial community which apprehended that the operation of the United Kingdom's commercial corporations in India would deprive the Indian community not only of the profits of the exports trade, but also of the benefits of trade contracts in certain countries. According to them in abnormal circumstances of War, private exporters cannot use the normal channels. Hence the Government of India should establish an agency to look after trade with those regions where the traditional trading system had collapsed. Further, this organisation would be eminently fitted to deal with foreign purchasing missions which were operating into specific directions not always to India's advantages and depressed prices by their bulk purchases. However, no decision was taken on Government's entry into foreign trade.

In the context of the anti-inflationery measures that were recommended to the Government in the latter half of 1948, the Sub-Committee of the Cabinet directed that an examination be made of the possibilities of setting up an organisation for controlling the export and import trade in certain commodities and intercepting the profits therein for the tax payers. Meanwhile, the excessive rise in the price of East African cotton imported into India had attracted attention to the large margin between the prices which had been negotiated by the Government of India under a bulk purchase arrangement and the actual market price in India. This led to the suggestion that Government should step in and take-over imported cotton under that deal. The Economic Committee of the Cabinet considered the proposal but came to the conclusion that it should not be proceeded with.

In March 1949, Shri K.C. Neogy, the then Commerce Minister, in the course of discussion on the demands for grants for his Ministry, said that Government had undertaking what might be called state trading in some cases during the previous few months. He added, "From all points of view we are anxious to have the question of state trading on the basis of State Corporation examined in some detail. As a result of an examination we may find it possible to have an organisation for the purpose of undertaking trade in certain specific commodities with reference to certain specified countries. It is my intention to have a Committee set up as soon as possible and associate certain members of the House with the Committee. Certain features that I have noticed ~~with~~ in cases of bilateral trade agreements seem to indicate the necessity of state intervention in some manner without leaving the implementation of these agreements entirely in the hands of the Trade".

Repeadtedly, the need for direct trading came up before the Government, the objective being not to absorb the profits of trade but to retain India's hold on the foriegn markets. When India devalued its currency in 1949, the suggestion to use Government trading came up again to mop up the surplus profits. A committee under the Chairmanship of Shri Punjab Rao Deshmukh was appointed in 1949 to look into the issues of state trading.

This committee examined the issues in detail. The major issues are: (i) whether there should be Government trading; and (ii), if so, in what commodities and through what type of agency it should trade.

First, according to the Committee Government trading becomes necessary for the planning of foreign trade in view of foreign exchange difficulties. This planning has to be integrated with the economic planning. Various measures such as regulation of imports and elimination of non-essential imports can be more effectively done through Government trading than through the operation of import controls. In addition, redirectly trade flows from "soft currency" areas to "hard currency" or "dollar areas" was considered necessary which private trader motivated purely by profit consideration may not be able to achieve. Further India's collective buying capacity has to be used effectively in the world market for bargaining.

With regard to export trade, the Government entry must be carefully examined. If one needs to mop up excess profits under private trade, there are a number of other ways. For instance, according to the Committee, the export duty can be used as a substitute. Further, the Government's entry into direct trade is effective when it pools orders of private traders at their request and undertakes negotiations, on their behalf and at their risk. This may be of considerable advantage specially when they are dealing with monopolies abroad. Second, Government trading in exports was contemplated where barter agreements have to be entered into.

The committee recommended the establishment of a state trading corporation to take over imports of certain specific commodities such as East African cotton, foodgrains, fertilisers, steel and coal. However, the Government did not take any action in matter.

In 1955, a suggestion for monopoly of Government in certain specific lines of exports came up in the First Lok Sabha on 9th September. The Government of India did not accept the suggestion. Opposing such a proposal, the then Minister of Commerce said "We propose to keep the position under constant review and if we discover that in any particular respect, the regulating power and our fiscal measures are proving inadequate or that state is likely to benefit in a large measures by changing the pattern of trade we will not hesitate to supplement it by more positive action on our part. In addition we propose to examine whether it is necessary to set up a State Trading Organisation in order firstly to facilitate the development of trade with countries where trade is in government hands and secondly to assist Government in solving difficulties and problems for which private trading channels are found to be inadequate".

In the entire evolution of thinking about Government trading, as was more clearly spelt out since the second World War, it is clear, that it has been concieved as an instrument of trade policy rather than a mere barrier to trade.

Even after the establishment of State Trading Corporation in 1956, there was a slow evolution of Government entry into trading activity. The STC was given a mandate which was sufficiently wide to take care of any subsequent shift in the Government policy. The Memorandum of Association stated that the objective of the Corporation was "to organise and effect exports from and imports into India of all such goods and commodities as may be determined by the company from time to time, and to undertake the purchase, sale and transport of and the general trade in such goods and commodities in India or anywhere else in the world". Similarly on exports also such mandate was built in.

This, however, led to a bit of confusion. Various representations were made both to the Mudaliar Committee as well as the Estimates Committee of the Parliament. Hence, there were many recommendations by these committees. As a result of these recommendations, the Memorandum of the Association was amended. The relevant clauses are as follows:

1. To organise and undetake trade with state trading countries as well as other countries in commodities entrusted to the company for such purpose by the Union Government from time to time, and to undertake the purchase, sale and transport of such commodities in India or anywhere else in the world.

2. To undertake at the instance of the Union Government import and/or internal distribution of any commodities in short supply with a view to stabilising prices and rationalising distribution.

3 To generally implement such special arrangements for imports, exports, internal trade and/or distribution of particular commodities as the Union Government may specify in the public interest.

While the Government's entry into trade was selective and was governed by various factors of managing foreign exchange disbursement and earning, there was no specific mandate to direct entry of trade in foreign trade. But the changed political climate led to the take-over of trade by the Government as state policy in 1969. A resolution passed by the All India Congress Committee in 1969 states, "The <u>AICC</u> is of the view that the export and import trade should be progressively undertaken through state agencies. The Government is requested to undertake commidity-wise examination in phased programme to this end".

The Export Policy Resolution tabled in the Parliament in 1970 says, "The role of the public sector in the development and expansion of our foreign trade will be expanded progressively and substantially.

Referring to the demand for the total takeover of foreign trade made by some members, Late Shri L.N. Mishra the then Minister of Foreign Trade, told Lok Sabha in March 1971 that by the end of the next financial year 70 per cent of the import trade would be canalised and the result of it also would be taken over on a phased basis.

## Main Objectives of Government Trading in India

Over the years, the objectives of Government trading India are becoming increasingly comprehensive. Government trading is not only confined to mere trading activity but has also been extended to a number of related activities. The main objectives of Government trading in India can be summarised as follows:

i) To attain advantages of bulk buying and selling;

ii) To import goods in accordance with aid commitments and other needs of the economy such as strategic needs;

iii) To deal with the trade with bilateral trade and payment arrangement countries including centrally planned economies;

iv) To remove the malpractices from exports and imports;

v) To facilitate export production by providing financing facilities to manufacturing units, (for example establishment of Export Development Fund by the STC).

vi) To remove _inter se_ competition;

vii) To support small scale units in their export endeavour;

viii) To increase the exports of value added items;

ix) To provide export assistance by providing raw materials; etc.;

x) To facilitate export expansion of new products; for instance STC has entered into export of army software, uniforms, boots, blankets, tents, naptha, bitumen, etc.; and

xi) To undertake price support and buffer stock operating in a variety of products including ensuring fair price to primary producers.

In this context, it is necessary to clarify the concept of canalisation. It is essentially used in India signifying the Government's entry into trade either in export or import.

(iii) Share of Government in Exports and Imports

It must be noted that a large number of agencies are dealing with export and import trade. The share of Government in trading activities as given below constitute a sizeable proportion.

In imports, the share of the Government has increased from 74.26 percent in 1978-79 to 82.13 per cent in 1982-83. In exports, its share has increased from 37.49 per cent in 1978-79 to ~~47.03~~ 47.06 per cent in 1982-83.

SHARE OF GOVERNMENT TRADING IN INDIA'S EXPORTS AND IMPORTS

(In percentages)

| Year | Exports | Imports |
|---|---|---|
| 1978-79 | 37.49 | 74.26 |
| 1979-80 | 39.32 | 75.97 |
| 1980-81 | 42.66 | 77.83 |
| 1981-82 | 45.35 | 80.26 |
| 1982-83 | 47.06 | 82.13 |

SOURCE: Collected from various organisation dealing with Government trading.

## ORGANISATIONAL STRUCTURE OF GOVERNMENT TRADING IN INDIA

The massive direct participation by the Government in foreign trade of the country obviously calls for an effective organisational set up to support this effort. In fact, often, the limitations of Government trading are attributed to inadequately Organisational structure it possesses in order to undertake the challenging task of highly complicated international selling and buying operations.

The Government organisations handling foreign trade can be classified under the following heads: (a) departments; (b) supply mission; (c) trading corporation; (d) manufacturing public undertakings; (e) commodity boards; and (f) cooperatives. Before analysing these, it would be desirable to examine the policy-making structure pertaining to Government's direct entry into foreign trade. The main policy-making ministry in the Government of India in this regard is the Ministry of Commerce although many of the organisations are under the administration of different ministries concerned. The Steering Committee of the Ministry of Commerce decides the import and export policy which is announced for the period April-March. The sub-group of this Steering Committee normal considers the proposition of canalisation of specfic product groups. However, the proposal for canalization need not emanate from this body. Suggestions can come from any other organisation. The Minister of Commerce approves the canalization of a particular product. In case, the product is of great significance the approval of the Central Cabinet is obtained.

Since many organisations dealing with foreign trade are under various ministries, there is need for coordination among them. Coordination of this work normally begins at the level of a Deputy Secretary of the Ministry of Commerce. He presents the case to the other Ministry sfor clarification. If it is a matter where such an understanding can fecitate coordination, it is done. If it is not, the Secretary of the Ministry of Commerce takes up with the Secretary of the Ministry concerned. If the approach fails the matter is brought before the inter-ministerial Committee of Secrataries. If it is not resolved, it is taken up by the commerce Minister with the Minister concerned. In the event of failure it is taken up at the level of Cabinet Sub-Committee of Industry and Trade.

Department : The departmental purchases are confined to the purchases made by DGS&D and two supply missions, one in UK and the other in the USA. All the activities of the DGS&D are guided by the recommendations made by Stores purchase Committee appointed by the Government of India in 1955. According to it, a central purchase organisation which brings within its scope as much as practicable, the purchases of the various departments of the Central Government, the quasi-Government Institution, state owned companies, will occupy a key position in the economy of the country and have a vital role to play in the successful execution of the quinquennial plans of the Government of India. According to the committee the Central Government departments, Ministries and the State Governments, public corporations should purchase through either of three agencies; Supply Mission, London; Supply Mission, Washington and DGS&D, New Delhi. All these are under the administrative control of Ministry of Supply.

DGS&D buys a large varieties of products. It includes lubricant, non-ferrous metals, fertilizers, capital goods, etc. Imports of DGS&D have not increased fast over the years. There ~~instruction~~ is an attempt to buy from indigenous sources. Specific instructions have been issued after 1962 to permit imports only after ascertaining if local manufacturers cannot meet the demand. Attempts have also been made to enable indentors to accept indigenous near substitutes in preference to foreign stores. DGS&D normally imports through the local agent of the overseas sellers. In case, there no such agency, DGS&D contacts the overseas sellers directly.

It is estimated that a large proportion of imports are effected through the agents. Out of 7000-8000 orders over a specific period for imports, only 50 orders are directly placed with the sellers overseas.

The Defence Ministry and the Railway Ministry are increasingly feeling that meeting their demand through DGS&D is operationally not a quick process. Nor is there any decision that ministries may be asked to make their imports directly.

Foreign exchange is normally released in bulk to the individual indenting Ministry. DGS&D issues an import recommendation certificate after consulting the Directorate General of Technical Development. The import licences are granted on this basis by the Chief Controller of Imports and Exports.

While the imports of the Central Government Department are very important, Food Ministry imports food through Supply Mission. Other ministries at times choose the state trading enterprise to do the job. For instance, edible oil was being imported by the State Trading Corporation at the instance of Ministry of Food and Agriculture.

Trading Corporation : There are a large number of trading corporation. They include STC, MMTC, Jute, Cashew, Tea and Mica Corporation. These organisations conduct the major part of trade as will be seen in the Table VI. The idea of having a separate corporation was mooted by the Committee on State Trading in 1950. It hads emphasised that a Corporation free from day-today interference of the Government of India will be in a position to makenecessary commercial decisions. But these corporation would be accountable to the Government and Parliament for their overall performance.

Under the concept of accountability of public under-taking the trading corporations are also accountable to the Parliament and the ministries concerned. The main instruments of public enteprises are used in the context of corporations also are questions and interpellations from the concerned minister, debates and examination by Parliamentary Committee.

While the trade was undertaken by the Government for the first time, it was considered that one corporation viz. STC was enough to handle it. From the Memorandum and Article of Association, it is evident that the STC can engage in exports and imports and even domestic trade and handle a large number products.

The business, however, grew gigantically and it was felt necessary to reorganise the set up. Further, the idea of specialisation in product groups became very important.

The most important decision in this regard was taken in creating the MMTC. With the rapid growth of direct trading activities of the STC from a turnover of about Rs.9 crores in 1956-57 to about Rs.87 crores in 1962-63, in addition to indirect trade and the Cement Agency Function, the need was felt for a separate corporation to handle exclusively the export of mineral ores and to undertake the import of essential metals. Exports of mineral ores, particularly iron ore, have been given a special role in the country's Plans. An export target of 25 million tonnes of iron ore, was fixed for the Fourth Plan period. Exports of mineral ores were posing difficulties because of rising internal costs and declining prices in the world markets. It, was therefore, though that the formation of a separate corporation would facilitate planning and concerted development of exports and enable large volume of trade to be handled in the specialised manner suited to the highly competitive and complex world markets. For these reasons, a decision was taken in by the Government to bifurcate the State Trading Corporation and carve out a corporation to deal exclusively with the trade in the minerals and metals.

The need for product specialisation was felt more since 1966-67. As a consequence, two types of organisations have been created:

(a) A series of new corporations have been brought into existence. These corporations are Tea Trading Corporation to take up all exports of Tea, Jute Corporation to take up all exports and imports of Jute, etc.

(b) Within the STC, a large number of subsidiaries have been created with a product group specialization making STC a holding company. HHEC, Cashew Corporation, Projects and Equipment Corporation, etc. are the examples of this type. MMTC has also a subsidiary in Mica Trading Corporation.

The list of trading corporations have been given in the Appendix I.

Thus of the 13 marketing companies, 12 are in the category of specialised trading firms and 1, viz., the STC remains as a composite trading house. Of the 12 specialised trading firms, 4 are subsidiaries of the STC and 8 are independent specialised marketing companies.

It is indeed difficult to study in detail all the organisations, within a short span of time. Therefore, recourse has been taken to the studies made on efficiency of organisational set up for Government trading by various export committees. The main limitations as viewed by these committees have been summarized below.

First} although these agencies possess the character of independent organisations, they have not developed effective devices to reduce Governmental intervention. The very character of the decision making is such that the Government plays a significant role in determining the size and nature of the trading transactions.

Secondly, the character of decision making has been takes most often from the Government culture. The concept of specialisation does not seems to be the principle Govering the development personnel for various segments. Resulting from the method of communication remains on the governmental pattern which is not conducive to trading practices.

Thirdly, all agencies are subject to extensive public scrutiny. This scrutiny as developed in examination by the Parliament, Sub-committee of Parliament and Investigations Committee have not yet reduced the fear complex and hence there is a tendency to bring to the minimum, activities involving business risk in decision making.

Fourthly, Government very often entrust these organisation wirh a large number of tasks which need not necessarily be consistent with purely commercial functioning. This often demands the resources of the corporations to those unexpected tasks in a short period of time. Some of the organisations have been asked to become "economic Fire Brigade".

Fifthly, "these organisations do not get adequate time to prepare for undertaking the taks. These organisations have been given rush jobs. As a result, very often, they make mistakes which are exposed to public secmutiny. In fact, these corporations while moving into the new areas are getting into hostile areas both in terms of incussion and to its teething troubles".

Finally, there appears to be insufficient coordination among the various trading corporations. This see ms to persist even among the subsidiaries. The relationship between the STC as a Holding Company and its subsidiaries has not followed a uniform pattern. The HHEC for all intents and purposes is an independent company, the STC acting as an agent for making good its losses in the form of subsidies. The STC has no doubt nominated some Directors on the Corporation, but the STC Directors, in fact, operate very similarly to Government Directors on a public sector concern. The Indian Motion Pictures Export Corporation was not only operating as an independent company, but has been over the past 2 or 3 years, in a situation almost of confrontation with the Holding Company. The PEC has all the external trappings of a Registered Company but in actual practice it is operating very much like one of the other divisions of the main company; finance and personnel are controlled by the Holding Company. The Cashew Corporation is also operating as an independent company and none of its business decisions come to the STC Board. Its relationship with the Holding Company, however, had been considered to be satisfactory primarily because the Chairman was the Director of the STC. This position could sharply change if the Chairmanship is given to an outsider.

Cooperatives: The concept of specialisation in products has made Government to accept certain other organisations for handling the canalised products. National Agricultural Federation Development Corporation (NAFED), for instance, has been entrusted with the task of trading in pulses, onion and chillies.

Manufacturing Public Undertakings : The major agencies used for trading specially for imports have been Indian Oil and India Drugs and Pharmaceutical Limited. Of course, at times Indian Drugs Pharmaceutical Limited is used by the State Trading Corporation as agent to undertake trading.

Joint Ventures : The Metal Scrap Corporation is a joint venture of the State Trading agencies with the interests representing both the ferrous scrap trade and the consumers of ferrous scrap.

<u>Commodity Boards</u> : A few commodity boards are also entrusted with trading: For example silk Board is the canalizing agents, for imports of raw silk.

The share of various types of organisations in exported and imports have been given in the subsequent tables.

The share of various Government Agencies dealing with foreign trade has undergone a change over the period 1978-79 1982-83. The share of public sector manufacturing concern in India's exports experienced a decline in their share from 26.14 per cent in 1978-79 to 10.82 per cent in 1982-83. The share of trading corporations on the other hand experienced an increase. It increased from 45.82 per cent in 1978-79 to 63.35 per cent in 1982-83.

Similarly in imports the share of various Government agencies in handling imports has been altered. In the increased imports the imports by DGS&D remained almost static, in fact, registered a marginal decline. The share of supply mission in imports of the Government also registered decline. In 1978-79 it was 31.69 per cent which decline to 19.90 per cent in 1982-83. The direct imports by the State and Central tradin departmentsu undertakings' registered a rise. The share of trading corporations of the Government also registered a small rise over the period.

Share of Various Government Organisation of India in imports of the Government of India

| | 1978-79 | 1979-80 | 1980-81 | 1981-82 | 1982-83 |
|---|---|---|---|---|---|
| Imports of DGS&D | 5.94 | 5.65 | 4.75 | 6.57 | 4.32 |
| Imports of India Supply Mission at London & Washington | 31.69 | 19.02 | 1.85 | 18.85 | 19.90 |
| Imports of State/Central/ Department Undertakings | 22.35 | 34.11 | 3.80 | 28.35 | 34.95 |
| Imports of Trading Organisation like STC/MTC, etc. | 41.02 | 41.22 | 4.60 | 46.23 | 40.83 |
| Total of the above | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |

SOURCE: DGS&D And annual Reports of the Corporations.

**% share of Various Government Organisations in India in Government Exports**

| | 1978-79 | 1979-80 | 1980-81 | 1981-82 | 1982-83 |
|---|---|---|---|---|---|
| 1. Export Earnings through Manufacturing concerns (Public Sector) | 26.14 | 24.75 | 18.12 | 14.79 | 10.82 |
| 2. Export Earnings through Services | 26.29 | 24.79 | 28.26 | 24.87 | 25.83 |
| 3. Export Earnings of Trading Corporations such as STC, MMTC, etc. | 45.82 | 48.04 | 52.55 | 60.15 | 63.35 |
| 4. Export Earnings of Cooperatives (NAFED) | 1.75 | 1.42 | 1.07 | 0.19 | - |
| Total of the above | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |

SOURCE: Bureau of Public Enterprises, Annual Reports.

# CHAPTER-III

## A STUDY ON EXPORT OF IRON-ORE

## IRON ORE

Iron ore specifications relate to size and chemical analysis. Mainly the following two types of grades are being exported by India.

(1) Super high grade - where the Fe contact is 67% and above;

(2) Basic grade - where the Fe contact is between 62-65% - this type of quality ore are found in Bailadila; and

The iron ore exported from Goa is mainly lump ore. The Ballary/Hospet area of Mysore State consists of superfine grade.

Iron ore deposits are located almost in every state in the country. The richer deposits are, however, confined to Bihar, Orissa, Madhya Pradesh, Goa, Maharashtra and Mysore. Andhra Pradesh and Rajasthan also contribute to the iron ore production.

Iron ore is an important export item of India. It has lately emerged as a significant foreign exchange earner. The share of iron ore exports to India's total exports is on an average 6 to 8 per cent as seen inthe following table:

**Share of Iron Ore in India Total Exports**
(1978-79 to 1982-83)

| Year | India's total exports (Rs.in lakhs) | India's exports of iron ore (Rs. in lakhs) | Percentage share |
|---|---|---|---|
| 1978-79 | 135634 | 8840.0 | 6.51 |
| 1979-80 | 140870 | 9461.6 | 6.72 |
| 1980-81 | 152439 | 11728.0 | 7.69 |
| 1981-82 | 156354 | 10470.0 | 6.69 |
| 1982-83 | 195445 | 10979.0 | 7.45 |

SOURCE: DCI & S, CALCUTTA

**Share of exports in India's total production of iron ore in select years**

(Percentages)

| 1950 | 1960 | 1970 | 1980 |
|---|---|---|---|
| 3.7 | 51.8 | 65.5 | 73.3 |

SOURCE: Calculated from the data from Reserve Bank of India Report on Currency and Finance.

## History of Canalisation of Iron ore Exports

In the early fifties, iron ore mining industry was badly organised. Since many mines were small and were unable either to expand production or to export, they were dependent on large mine owners and middlemen. It was felt that the industry could be organised effectively only by the intervention of the Government. Further, the need to make it export-oriented actively refinforced the decision in favour of direct participation of the Government. Therefore, in 1953, the Government of India stepped in to regulate this industry.

The legality of the Government's policy was challanged by the private min-owners in the Supreme Court. In conformity with the Supreme Court's order the export of iron ore and manganese ore during the period July-December 1956 was regulated on the following basis:

a) Export quotas were granted separately to each of the ports through which exports were effected. Separate quotas were thus granted for the ports of Calcutta, Vishakapatnam, Masulipatnam, Kakinanada, Madras, Redi, Bombay, Bhavanagar and Kandla;

b) Export quotas were granted to shippers and mine owners on the basis of two-thirds of the quotas alloted to them for July-December 1955;

c) Quotas were granted to mine owners either against their exports effected during July to December or on the basis of this actual performance. Quotas will be allocated to them equal to three-fourths of the total quantity exported through the port concerned from Ist July to 31st December, 1955, less as much quantity as might have been exported by them against quotas as which had been alloted to them during July-December, 1955. Shippers/mine owners are advised to give alongwith their application a statement duly supported by an affidavit giving quantities exported by them against quotas issued during July-December, 1955.

d) Wagons will be alloted by the Railway authorities on a proprate basis, to mine owners on the lines on which the mines of the quota holders are situated and to shippiers on the lines which have been used by them during the period July-December, 1955.

Applications were advised to file an affidavit along with their application giving the lines on which they have moved their ored in July-December 1955 and stating the quantity for which they would like movement facilities on each of these lines.

The final canalisation of iron ore came into effect on Ist July, 1957. The objectives of canalisation have been:

a) to prevent fragmentation of quotas;

b) to facilitate bulk movements;

c) to help coordination of rail movements with shipping programme; and

d) to make it possible for the development of mining to be synchronised with the availability of transport.

The task of exporting was entrusted to STC. However, the Government was keen to ensure that established trading and mining interests participate fully in the business. The STC directed accordingly to utilise the existing trade channels to maximum extent practicable. Further, it was ensured that every established shipper and mine-owner/exporter was given an opportunity to participate in the business in relation to his performance during the four-year period ending December 1956 and that interests of mine-owners who were not shippers were duly safeguarded.

Consequent to the establishment of MMTC in 1963, the export of iron ore was transferred to MMTC. However, the exports of iron ore from Goa were not canalised except to Rupee payment countries which had to be routed through MMTC. Thus iron ore is a partically canalised the item.

The share of the Government of in iron ore exports increased steadily. It stood on an average at about 63 per cent in 1981-82 as sgown in Table3.

Share of MMTC and Exports from Goa in India's Total Exports of Iron ore

(Value:Rs. crores)

| | 1979-80 | | 1980-81 | | 1981-82 | |
|---|---|---|---|---|---|---|
| | Value | % ages | Value | %ages | Value | %ages |
| Exports of MMTC | 72.69 | 64.99 | 69.39 | 61.55 | 92.15 | 63.05 |
| Goa | 39.15 | 35.01 | 53.35 | 38.45 | 54.00 | 36.95 |
| Total | 111.84 | 100.00 | 112.74 | 100.00 | 146.15 | 100.00 |

Source: Calculated from the data provided by the MMTC and other.

Overseas Market Structure of Iron Ore Trade

The major buyers of iron ore are the stell producing companies of developed countries. These companies are small in number. It is estimated that nearly two-thirds of the glob steel output excluding that of the socialist countries is controlled by 20 companies. Moreover, since steel is very important for industrial growth and has high iron ore content, these companies have a strong tendency to get iron ore at stea  or predictable prices. To achieve this, they normally take recourse to direct participation in the ownership of mines at home and overseas, often referred to as "captive mines", and long-term contracts of upto 20 years of duration. Trade in iron ore under such arrangements constitute 70 per cent of the total trade. Therefore, only 1/3 of World iron ore trade comes under the so called "free market transactions". Even in this, there is a sort of understanding between producers and sellers of ore. One year contracts are signed, Hence, one can conclude that iron ore market is not a free market insofar a free price mechanism does not operate.

There is another main feature. The steel companies often act in concert to coordinate the expansion of their raw material procurement policy strategies with Government sanction. Japan particularly follows this policy of development of resources and has long-term contract instruments through which it obtains its ore. It is useful to note further that the main steel producing countries are also iron ore producers. Many of them are self sufficient and some of them are even exporters. As shown in the following table, Japan, European Economic Community and Eastern Europe are very important markets:

**World Imports of Iron ore share of Select Countries and Regions**

| | 1950 | 1960 | 1980 |
|---|---|---|---|
| U.S.A | 20.0 | 22.5 | 18.8 |
| Japan | 3.2 | 9.6 | 38.7 |
| U.K. | 20.4 | 11.4 | 4.2 |
| E E C | 36.3 | 39.7 | 35.5 |
| Other | 8.2 | 4.4 | 2.4 |
| East Europe | 11.8 | 12.4 | 6.3 |
| Total | 100.0 | 100.0 | 100.0 |

SOURCE: Calculated from UNCTAD, "Recent Developments in the World Market for Iron Ore", TD/B/C.1/Iron Ore/Conaa R.2, Feb.23, 1982.

MMTC's MARKET

The exports of iron ore from MMTC have followed world market rends. MMTC's exports have been primarily directed to Japan and Eastern Europe which together take more than 95 per cent of its exports.

**Share of Various Markets for Exports of MMTC's Iron Ore**

(Percentage)

| Year | Japan | Eastern Europe | Rest |
|---|---|---|---|
| 1979-80 | 70.0 | 27.3 | 2.7 |
| 1980-81 | 73.7 | 25.9 | 0.4 |
| 1981-82 | 72.6 | 22.8 | 6.6 |

SOURCE: Calculated from the date provided by the MMTC.

The importance of Japan for exports of iron ore from India is due to three main reasons, First, Japan has emerged in the post-war period as leading importer of iron ore. Its share in the world imports increased from 3.3 per cent in 1950 to 38 per cent in 1980, recording a spectacular growth over the period. Secondly, Japan is supposed to be the natural market for Indian iron ore primarily because freight constitutes the highest element of cost in exports. Freight cost on an average takes 35 to 40 per cent of the c.i.f. cost. Japan's proximity is an advantage for India. The importance of Japan-India's exports of iron ore is proved from the fact that exports by private exporters of Goa also go mainly to Japan. Almost 95 per cent of ore exports from Goa for last three decades have been going to Japan. Thirdly, Japan has been major aid supplier to India to develop iron ore sources. The Kiruburi and Bailidila iron ore projects have been financed by Japan's credit with an undertaking on the part of supply 2 million tonnes of iron ore per annum for a period of 10 years.

It is argued that in some quarters that over the years and increased supply of iron ore, the MMTC has not diversified the markets for iron ore. Ir may have to be reteratedhere that the MMTC was obliged to carry on the supplies of iron ore to Japan. However, the surplus could have been exported to other markets. This was not possible for the MMTC because of the character of the export market for iron ore, has been already discussed. All the steel producers have developed a sort of captive sources and are technologically dependent on the specific mix of ores.

## MMTC Overseas Selling Policy

The MMTC has followed similar practices as are being followed in the world trade of iron one. It is being exported to Japan under two types of agreements. One, a long-term, agreement of 10 years and other, a 5 year agreement.

## Long-term Agreement of MMTC with Japan

The MMTC entered into negotiation with the steel mills of Japan on 3rd April, 1970. The following are steel mills of Japan that have been buyers of iron ore from India.

1. Nippon Steel Corporation Ltd.
2. Nippon Kokan Kabushike Kaisha Ltd.
3. Sumitomo Metal Industries Ltd.
4. Kawasaki Steel Corporation Ltd.
5. Nakayama Steel Works Ltd.
6. Oobe Steel Ltd.
7. Nisshin Steel Co. Ltd.

Under the basic agreement India was to supply 80,000,000 tons of Kiruburi and Bailadila ore to Japan on an agreed price.

In this long-term agreement, the MMTC had agreed to sell at a fixed price for a period of three years from Ist April, 1971 to 31st May 1974. Ofcourse, there was a provision to take care of the changes in exchange rates. It has been argued that acceptance of this fixed price is not to the advantage of the seller. Since there was no price escalation clause, MMTC could not increase its price. A detailed examination of this issue has led to conclusion that the MMTC could have anticipated a rise in the price of iron ore. The downward trend in prices experienced since late fifties was in fact halted in 1970. This may correspond to inflationary pressure and the tremendous boom experienced by advanced countries in subsequent years. According to MMTC, the introduction of a price escalation clause would well. Further, in their judgement the life span of boom could not have been easily predicted. It was considered, therefore preferable to have a stable price to a fluctuating one. However, it can be noted that MMTC has been able to negotiate 35 to 40 per cent rise in price after the world prices registered a rise in 1972 and 1973. Yet, the long-term commitment of price can be considered as risky. There was also a significant ~~xxx xx x~~ tendency, during the period 1970-73 of trading iron ore without taking recourse to long-term arrangement.

The performance for a long-term arrangement appears to be the practice of Indian traders. This way revealed by our interviews with the need for an assured market in a product like iron ore whose production costs are substantial. The value of exports is agreed upon in the contact. However, with regard to price escalation, private exporters seem to have got price escalation clause included in the agreement. This caluse is revised every two years both by the buyers and sellers.

(iii) Pelletisation and Exports :

All major exporters of iron ore in the world are moving increasingly to export of pelletised iron ore as shown in the following table:

**Share of Pelletised Iron Ore in Total Exports of Iron Ore of Select Countries**

(Percentage)

| Year | Australia | Peru | Philippines | India |
|---|---|---|---|---|
| 1971 | 14.3 | 32.5 | 26.08 | 5.2 |
| 1972 | 13.5 | 31.7 | 26.08 | 5.2 |
| 1973 | 16.2 | 28.3 | 26,08 | 5.6 |
| 1974 | 14.9 | 29.5 | 28.60 | 5.9 |
| 1975 | 13.0 | 22.7 | - | 8.8 |
| 19[illegible] | 16.1 | - | - | - |
| 19[illegible] | 38.7 | - | - | - |

SOURCE: Calculated from the data supplied by MMTC.

Pellestisation increases the unit value by 20 per cent given the same content in iron ore. In this context it is contended that MMTC has not taken adequate steps to increase the unit value of iron ore by adopting pelletisation. Discussion with MMTC revealed that while pre-occupied with increasing the volume of sales, they are also taking interest in increasing the unit of values. But the emphasis of increasing the unit values of exports of iron ore is on gettinghigher prices for ore that is being exported by properly assessing the market situation and effectively using the bargining strength. This is revealed in MMTC's price negotiations with Japan after the exchange rate variations arising from international monetary changes whereby they got their prices adjusted to the market conditions. MMTC has been trading in iron ore for the last 15 years. Yet no pelletised iron ore is being exported. It would be unfair to say that MMTC is not aware of it. The problem of financing pellestisation seems to be overpowering MMTC and subsequent cost disadvantages that it may face.

There appears to be no specific target for exporting pelletised ore either. However, MMTC attributes this to domestic factors such as pelletisation facilities as well as choice of the buyer. Japan appear to be reluctant to purchase pelletised iron ore. Further, being purely a trading organisation, MMTC could not enter into production of pelletised iron ore. National Mineral Development Corporation, one of the major suppliers of MMTC's iron ore, could not establish a pelletising plant for want of funds. It was also beset by delays in decision-making. The original offer of Japan to assist in establishing pelletised plant could not materialise because of the delay. Consequently, Japan is reported to have developed this facility in other countries and did not render promised assistance.

The entire export of pelletised iron ore from India is being effected by private exporters from Goa. The pelletisation plant was intially set up by the Japanese technical assistance. Out of 12 million tonnes of exports of iron ore, 2 million tonnes consist of pelletised iron ore constituting nearly 15 per cent of total exports. Another plant is being established near Mangalore port. Japan is now reported to be interested in increasing imports of pellets to reduce pollution in Japan.

(iv) Logistic Problems of Export of Iron Ore

One of the major problems of export of iron ore is adhereance to the targets of exports by sustaining the movement of iron ore from the mines to the main ports. MMTC is continuously preoccupied with this. The shortfalls in the targets and the rail movements are very often high. In 1983-84, it was high as 30 per cent.

One of the major objectives of canalisation of iron ore is to coordinate the transportation and shipping of iron ore. The Committee of Secretaries of the Government of India is entrusted with the task of getting priority allocation for iron ore movement by railways. It is expected that this problem will be solved by the decisions made by this important committee. Despite specific decisions, the movement gets halted because of certain structural problems that afflict railway transportation of iron ore. The exclusive railway link for iron ore in the Kirundal-Vizag sector is difficult terrain. It needs different types of wagons. To provide all the required facilities to speed up the movement the railway are finding it difficult to accomodate due to their financial stringency. In other sector various demands on railways are increasing. Establishment of separate railways in all sectors for the movement of iron ore similar to "export" corridors" of Brazil are expected to be highly costly.

One important element that came up in this context is the loading and unloading of iron ore. It is considered that there is a tremendous leakage of time in thisprocess leading to short falls. Perhaps here MMTC and the producers of iron ore can do a little to improve the existing mechanism in a situation otherwise dominated by the structural difficulties of transportation and port development beyond the control of MMTC as a purely trading enterprise.

One advantage that the private exporters of Goa enjoy is that their exports need not depend on the rail movement, due to Goa's proximity of sea. Further some of the exporters have their own steamers. However, even the private exporters are facing the problem of inadequate port facilities.

(v) MMTC and Relationship with the Producers

The main suppliers are NMDC, small mine owners and big mine owners. The Chairman of MMTC is on the board of directors of NMDC. To that extent, one can think that there is coordination between the two. In fact, the entire production of Baladila is for MMTC. The newly established Iron Ore Board also has MMTC's Chairman as member on the Board. With other small producers MMTC has established contracts. Liaison committees meet once in a month. There are branch offices of MMTC in various areas where producers are located. They are headed by senior executives of MMTC for sustained consultation.

MMTC used to buy iron ore on the basis of three year contract from the producers with a fixed price as has already been stated. But lately annual contracts have been accepted as a trading method.

MMTC Claims that it is assisting the small mine areas. It must be noted that one of objectives of canalisation of iron ore has been to assist small mine owners. According to MMTC the intial swit-chover of the basis of procurement from Free on board and trimmed to Free on Board enabled participation of a large section of the mining community in the procurement programme. The majority of the mine owners lacked sufficient financial resources and on that occount remained handicapped, in organising movement of ore from the mine heads to the ports. It was for this reason that they were selling their production to the suppliers without transport who took upon themselves the responsibility of moving ore from rail heads to ports and loading into steamer. Besides operational advantage the main thing which had weighed with the Corporation in switching over the exploit basis of procurement was to assist in a large measure the weaker sections of the mining industry with a capacity to effect supply of nore more than 20 tp 25 thousand tons annually.

The procurement on exploit basis directly benefited the small mine owners in more than one way as under

(a) <u>Remunerative Price</u>

The produrement price on exploit basis has been fixed at Rs.1/- per tonne less than the price on FOR basis. Purchases on this basis are weighed in favour of the small mine owners than bigger suppliers who stood to gain more on sales on F.O.R. pattern. In the case of FOR suppliers, the mine owners themselves including loading charges would have cost much more particularly to those with small turnover than Rs. 1/- which is the difference between the FOR and exploit prices.

(b) Sustained Production

Direct sale to the Corporation has enabled the small mine owners to plan sustained production and development of their small sizes leases. All that they produced has been sold to the Corporation irrespective of uncertain rail movement and other bottlenecks. This has led to uninterrupted production by this category of mine owners who could not hold large inventories.

(c) Quick Payments

Exploit deliveries assured the small mine owners of prompt and regular payments 85/9% provisional payment is made within 3/4 days on presentation of the bill and the final payment is released in the next 2/3 weeks on receipt of final documents. This gave a fillup to the weaker sections among mine owners who did not have financial resources to sustain themselves for longer period and has thus ensured quick turnover and a saving of interest charges which the mine owners would have to pay otherwise on raising funds.

(d) Stockpile

The procurement of ore on exploit basis has led to larger stockpiles being built up with the Corporation at diferent railheads due to vagaries of rail movement. At the same time, it had a very benaficial effect on the mining industry, in that it has ensured uninterrupted production by the weaker sections of mine owners in particular.

(e) New Railhead to reduce Distance From Mines

Haulage of ore from the minehead to the railhead constitutes an important element of cost to the mine owners. In some areas, the Brajamad sector the mine were located at a great distance from the railheads. With the limited production capacity of these mines, it would have been totally uneconomical for the samll mine owners to work these mines on account of substantial transport charges. Keeping this aspect in view, the Corporation opened up new centres at the nearest railheads to these mines in spite of the fact that the total production would normally not be adequate to sustain such new centres. In the Barajamda area, the receipt of ore at Deoghar and Goa is intended primarily to assist the small mine owners; these stations have cut down the distance by about 10 to 15 Km. thus reducing their costs.

(f) Protection

In spite of several encouragements, it has not been possible in many cases for the small mine owners to deliver the contracted quantities. It became necessary sometime ago to regulate inflow of ore in the Barajamda sector; the quantity for inflow had to be based on the actual performance of the mine owners during the last three years. In spite of the fact that under such a calculation, the total quantity to be allocated to the smaller mine owners on the basis of their performance would have been very low, the Corporation gave a special weightage to this weaker category by laying down a minimum intake of 12,000 tonnes and at some other stations 1,900 tonnes annually from such mine owners vis-a-vis the big suppliers who had to face~~x~~ the full impact of such regulation.

(g) Acceptance of low Grade

A few small mine owners had leases which did not yield the required specifications of iron ore for export. In order to keep such mine owners in business the Corporation purchases some quantity of lower grades from their mines and utilises them for export after blending with high grade.

With the entry of the MMTC into the iron ore field and commencement of procurement operations on exploit bases, the number of smaller enterprenerus suppling iron ore to the Corporation has increased usbstantially. In Bellary/Hospet sector, there are at present about 100 small entrepreneurs participating in procurement programme out of a total number of 139 suppliers working out to nearly 70%. This is sample testimony to the fact that a large section of the smaller entrepreneurs have derived their needed encouragement from the MMTC's procurement operations. With the quantum of offtake having substantially increased over the years, parties have gone in for new leases.

The procurement of iron ore by the Corporation has thus gradually eliminated monoploy in minerals trade by big suppliers. A large number of mine owners has been brought directly into trade with the Corporation which has assured their getting a better return for their material and anabled them to organise and regulate their production. Fixation of remunerative procurement prices from time to time has enabled the suppliers/mine owners to pay due wages to labour based on Wage Board Awards, which in turn has helped the labour as well the minig sector.

The financial assistance that the MMTC has rendered over a last decade directly or in the rendering of which the MMTc has been directly instrumental in the field of development of infrastructure, machinery and production are summarised below:

i) By way of installation of machinery, conveyor belt, acquisition of barges, loading equipment etc.- Rs. 3 crores

ii) By way of financial assistance to state agencies for construction of better roads- Rs. 5 crores

iii) By way of tyres, diesel oil, etc. supplied by the Corporation from out of MMTC's stock to mineowners- Rs. 1 crores

iv) By way of establishment of new unloading station, augmentation of facilities in the existing loading station- Rs. 30 lakhs

v) By way of financial assistance to mineowners against hypothecation of iron ore stocks (approximately) - Rs. 10 crores

However, accoring to some small mine owners, their difficulties have not been sufficiently taken care of. In a memorandum to Iron Ore Board some of them have expressed certain difficulties. In our extensive interviews, we foun that MMTC has been quite responsive to the needs of the small mine owners. Many of the problems of small mine owners emanate primarily from their unwillingness and inability to make required investments sepecially in Bellary/Hospet area.

vi) Decision Making Process in MMTC with regard to Iron Ore Expor

The Committee of Secretaries decided:

(a) The movement of targetted iron ore; and

(b) the rail movement capacity required for it as it is related with the movement of other products.

The Sakes Advisory Committee of MMTC decides about the sale of iron ore. There is alos a committe dealing with ~~xmgxxdxxsxm~~ pricing issues which decides about the pricing policies with regard to export contracts above Rs 2 Crores. On this Committee, representatives of Ministry of Commerce and Ministry of Finance are also included.

vii) Market Diversification

MMTC has fairly good information for assessing the market. But it is not easy to conclude the ways in which this information is integrated effectively in their marketing strategy. However, there appears to be a slight break through in this regard since 1971 when they examined the market condtitions for iron ore through an elaborate excercise in market analysis. In fact exports have been effected to West European Markets despite difficulties posed by the closure of Suez Canal. This market diversification is considered as a very important aspect even by the private exporters since they export only to Japan, a committed market.

viii) Conclusion

It would desirable for the MMTC to take more interest in realising increased unit values by increaing the share of pelletised iron ore rather than devoting its exclusive allocation to increasing the volume of iron ore exports.

MMTC is undoubtedly constrained by many structural problems of iron ore market as well as domestic transportation and port development effort. Being a trading agency it could not develop the necessary integrated marketing endeavour from production to transportation.

# CHAPTER-IV

## A STUDY OF IMPORT OF NEWSPRINT

# NEWSPRINT

Newsprint may be defined as a low cost paper made from a blend of furnish which essentially contains mechanical pulp and a small percentage of chemical pulp added to increase the strength of the finished paper so thatit can smoothly pass in the sheet formation and can have the strength required for printing. There are two types of newsprint: (i) mechanical glazed and mechanical ordinary; and (ii) bleached and unbleached.

Mehcanical pulp differs from chemical pulp. It contains practically all the constituents of the original wood and the fibres do not exist as individual entities but rather as fibre bundles and fragments of fibres. The yield is about 90 - 95% of the original wood compared with 40 - 50% for chemical pulp. Mechanical but tends to break up thus producing bulky papers. Because the pulp contains practically the whole wood, the papers deteriorate in strength and become yellow on aging. But it has some desirable characteristics like low cost, good printing quality, high capacity and good grainage for high speed paper machine operations. The amount of mechanical pulp used in newsprint may be as high as 90% of the fibrous furnish. India imports essentially mechanical unglazed bleached paper.

(i) <u>History of Canalisation of Newsprint</u>

The import of newsprint in India by STC dated back to 1958-59. It has been importing nearly 50 per cent of India's total imports of newsprint since then. This included glazed as well as unglazed newsprint. The unglazed constituted 70 per cent of the total imports.

The import of newsprint was needed for a large number of newspapers. It is estimated that in India nearly 2000 small and big newspapers require newsprint. Of this, nearly 90 per cent consist of small newspapers using only 20 per cent of total imported newsprint. To meet specific needs of small newspapers Government of India meet the import requirements of large newspapers. Even the imports of newsprint by the big newspapers was regulated by the price policy followed by the Government of India. Under this policy, the STC used to determine the price for imports. With the price limit set the end users could choose their sources of supply given the foreign exchange allocation. However, in 1974-75, the newsprint import was completely canalised which was announced by the Government in its public notice CCI&E 79/ITC/PN/74 on June 6.

The board objectives of canalisation have been: (a) to secure bulk buying advantages; (b) to avoid *inter-se* competition; (c) to maintain buffer stock to meet emergency requirements of the users; and (d) to help small newspapers.

(ii) Character of Domestic Demand for Newsprint

India is importing annually on an average in the recent years 5 lakh tonnes constituting less than one per cent of world demand. The National Newsprint and paper Mills Ltd. Nepanagar, M.P. was till recently the only unit in the country manufacturing newsprint. The mill, which is now in Public Sector started production in 1955 against an installed capacity of 67,500 tonnes per annum. The mill has produced 57,3000 tonnes of newsprint during 1982-83. The newsprint during 19 project of the Mysore Paper Mills in Karnataka (a state government undertaking with a capacity of 75,000 tonnes per annum and the Kerala Newsprint project of the Hindustan Paper Corporation, a Public Sector Project with a capacity of 80,000 tonnes per annum went into production during 1981-82 respectively.

These are supplementing the impost-needs of the newsprint.

(iii) Character of the Overseas Newsprint Market

The market for selling newsprint appears to be very well organised almost possessing oligopolistic charactersitics. There are a large number of newspapers producers' association such as Scanewes covering Scandinavian producers, one of the leading producers.

These producers normally tend to enter into long-term contracts with a large number of buyers with a view to have an assured sales outlet, for it is a capita-intensive industry. Normally, 80 per cent of the production is booked in advance.

iv) STC and Newsprint Imports

Table gives the share of STC in import of newsprint in the past four years.

| Year | All India imports | Imports by STC | Percentage of total imports |
|---|---|---|---|
| 1977-78 | 1873.0 | 1374.55 | 73 |
| 1978-79 | 2759.0 | 1708.63 | 61 |
| 1979-80 | 2052.0 | 1059.86 | 54 |
| 1980-81 | 1848.0 | 1193.06 | 75 |
| 1981-82 | 4232.0 | 4232.00 | 100 |

Source: Foreign Trade Review

V) Purchase Policy of STC

A t the outset, it is necessary to know how the STC estimates demand. It is understood from discussions that imports per annum. The entired demand was assessed by the Registrar of Newspapers. This was corroborated by the study conducted by Administrative Staff College of India and four discussion with the Registrar of Newspapers and the IENS (Indian & Eastern Newspaper Society).

STC used to get its demand estimates some time in the month of Marhc every year from the Registrar of Newspapers. The Registrar gives the demand for the import of newprint annually.

This corresponds to the period for foreign exchange allocations made by the Ministry of Finance. Under newsprint Control Order, quotas were allocated by the Registrar of Newspapers to various newpapers and this practice has been further re-inforced after the complet canalisation of nesprint in 1974-75.

Under these measures, the policy of newsprint imports is decided by a high power committee. This committee was known as Newsprint Purchase Committee (NPC) Comprising representatives of the Ministry of Finance, Ministry of Commerce, STC, Registrar of Newspapers of India, Indian Language Newspapers Association (ILNA) and Indian & Eastern Newspapers Society (IENS). STC was generally guided by this committee. It was also expected that the decisions of this Committee were final and did not get refered to any other agency for it was believed that all important concerned agencies were duly represented on this Committee. The NPC was considering offers received for supply from time to time. Formal contracts were concluded by the STC, keeping om view the recommandations made by NPC. Thus, STC was just a purchasing agency of a specified amount andtypes of newsprint.

vi) Foreign Exchange Release

It must be noted that another important factor governing the operations of the STC was related to the type of foreign exchange finances provided by the Government to effect its purchases. Normally, funds were made under the following heads; (1) Funds under aid agreements; (2) Funds available under Rupee Currency Aggangements; and ~~(2)xx~~ (3) Free foreign exhhange.

This financing obviously affected the freedom of choice of importsby the STC. This again was a constraint imposed on it by the external plicy decision. In this respect, it was considered useful to see what was the proportion of import that came under aid, ruppe currency and free foreign exchange. This would abviously indicate the limits to the freddom of choice that STC had in purchasing.

Two years have been examined. Table give the shareof STc's imports under various financing schemes in select years.

<u>Share of Impots of Newsprints under various Financing Schemes.</u>

| | 1981 | 1982 |
|---|---|---|
| | March-July 1981 | Marhh-July 1982 |
| RCA | 32.56 | 35.09 |
| Long term Agreement | 1.39 | 11.39 |
| CIDA | 23.11 | 24.28 |
| USAID | 14.50 | Nil |
| Free Foreign Exchange | 28.41 | 20.53 |
| Bangladesh | - | 8.71 |
| Total | 100.00 | 100.00 |

Source: Calculated from the information availible in the study of Administrative Staff College on STC.

From the above table it is clear that nearly 20-30 percent of imports were effected under free foreign exchange. This would go up if the long-term contracts concluded by the STC wer also taken up. The total amount of imports under free foreign exchange constituted nearly 40 per cent of the total imports.

Sources of Supply

In this context first question that would come up is whether STC purchased economically form the various sourcesgiven the aid and rupee finance conditions. Under the aid and/ rupee payments arrangements, it must be noted that the source of supply, sepcially geographically were fixed. Hence the choice was limited.

From table one conclusion can be drawn that the STC had heavily concentrated its purchased from seven countries, viz., USA, Canada, Sweden, USSR, Poland, Bangladesh and Australia. This is partly understandble in view of the fact that 60 per cent of the importsxx ofxthexix of STC were wzowxrws ri vw wddwxrws ybswe xx x various arrangements. The non-STC imports have also been concentrated in these markets. The xhxxxx share of other markets in the total imports is a little more than 8 per cent. These markets include UK, Japan, Denmark, and Australia. Perhaps, they were not constrained by other regulations. Further price examination of unit values reveal that price-wise there was not nuch difference between the purchases made by the STC and other buyers prior to complete canalisation. Even prices from other sources wes fairly comparbale, as seen in the following table.

Share of Unit Values of Imports of Newsprint by the STC and Private Importers

(Rs. Per Kg)

| Country | 1981-82 | | | | 1982-83 | | | |
|---|---|---|---|---|---|---|---|---|
| | STC's Share | Unit Value | Non-STC Share (%) | Unit Value | STC's Share ( % ) | Unit Value | Non STC Share ( % ) | Unit value |
| USA | 23.18 | 1.32 | 76.82 | 1.32 | - | - | - | - |
| Canada | 60.08 | 1.36 | 39.92 | 1.21 | 70.37 | 1.22 | 26.73 | 1.45 |
| Sweden | 26.58 | 1.39 | 73.42 | 1.50 | - | - | - | - |
| USSR | 37.32 | 1.35 | 62.68 | 1.34 | 78.74 | 1.35 | 21.26 | 1.30 |
| Poland | 81.86 | 1.37 | 18.14 | 1.62 | 80.76 | 1.35 | 19.24 | 1.63 |
| Bangladesh | - | - | - | - | 100.00 | 1.36 | - | - |
| Austria | | | | | - | - | - | - |

Source: Calculated from DCI & S and Administrative Staff college's report.

Since the STC primarily acts as a purchasing agent, its effectiveness could be gauged from the question whether its purchase mechanism was systematically developed. I n this the most important factors to be considered have been;
(a) market judgement based on adequate information; and
(b) the details regarding various suppliers.

STC had limite market information on newsprint. They did not make adequate studies. According to the STC, since the Purchase Committe made major decisions, their role in making assess ent of the market was rather limited. The purchase committee went b individual opinions. It has not been backed by analysed market information. It was just a committee of experts without any support of a secretarist to undertake necessary market information studies. In fact the STC should have taken the initiative in providing such information for decisions based on studies. This seemed to be lacking. This was clearly revealed in the statement of the STC's Chairman, when there was acute shortage of newsprint not only in India but also in the West.

"All our newsprint purchases abroad are done in consultation with newspaper industry. It was not as if the newspaper industry wanted us to buy a lot and we failed to do so. We placed orders exactly as the industry wanted us. When newprint prices were going up, the newspaper industry naturally did not want us to ruch to make our purchases and we also thought it is prudent to wait and see if prices would decline."

The STC_s organisational set up dealing with the newsprint import was not adequately equipped to undertake intensive commercial intelligence activity..For newprint like any other commodity deserves a detailed understanding of the product and marketing. The orgaisational set up is indicated at Chapter I. It can be seen that theDirector, the main decision-making person handled as many as eight product groups. The chief marketing manager dealing with newsprint dealt with five other important commodities of export and imports. There were two deputy marketing manager who handled the newsprint exclusively.

This proves that due to inadequate infromation the STC could neither predict the future course of trends in international of newprint nor could it direct ~~newsprint~~ newsprint industry about its assessment of the market. This inadequancy appears to be glaring mainly because of the fact that the STC was in newsprint trade over the last 16 yeras. It is not one of those commodities in which the STC has entered as a new comer. The impact of the limitation of information gap on pruchasing activity of the STC can be revealed from the following case.

The inadequte knowledge on trading practice on the part of STC was evident from the fact that it called for a tender to supply newsprint in a period of sellers domination in the market which was feared to have led to a process ~~is~~ of cartelization by the sellers.

<u>Buffer Stock</u>

It was this attitue which made the STC go slow in operating buffer stock. The newsprint does not easily lend itself to buffer stock operation for theproduct loses its quality within a period of six to eight months. The buffer stock operation can be effectively done only when there is excellent market information and judgement. Otherwise, it would be a costly experiment. No doubt the STC in this context was reluctant to operate lareger buffer stocks.

An important query that has been raised is to what extent STC has been able to derive advantages of bulk buying. In newsprint purchases STC had to operate under certain constraints of which two are important. First, in the world market of newsprint there was a possibility of cartelization among thesellers so as to prevent the bulk buyer from desiring any significant advantage. Secondly, it appears tht theSTc's purchase decisions sometimes were circumscribed by various directives given by the Government. Nevertheless, it is foud that the STO brought newsprint cheaper thanthe private enterprise. In very few cases STC's purchase price has been slightly higher. Therefore, one can conclude, price-wise STC's purchases have been economical.

<u>Problems of End Users</u>

The large newspapers do not have many problems. However, they have a problem of choice of the typical Newsprint. Prior to complete conalisation they had freedom to choose as well because of being in close contract with sellers abroad, which was interefered with after the canalization. It is considered by the big newspapers that sporadic supply of newsprint had affected their finances as well since the cost of the newsprint constituted 60 per cent of thetotal expenditure of the newspaper industry.

The more acute problems appeard to beset the smaller newspapers. The end users could not take advantage of high sea sales. He was also faced with the problems of sporadic supply as well as making his own arrangement to lift the newsprint. Formaerly, he could use his clearing agents to do the job for him. Thus it is feared that the problem of small scale newspapers had not been adequately solved.

vii) Distritution Mechanism

On the recommendation of the Registrar of Newspapers, actual imports were arranged by the STC from time to time either for specific allottees for high sea sales or for release of ex-buffer stock at Bombay, Madras, Calcutta and Cochin under various contracts concluded by the STC. Accordingly, in respect of high sea sales the STC collectedthe specifications and their details by the port of discharge and ultimate destination etc. from the newspapers concerned and placed an order with suppliers to prepare lots and documents accordingly under separate bills of lading. AS soon as an order had been so placed, the allottees concerned were informed there by enabling them to take note of impending shipments. Generally 80% of STC's total imports were sold out to about 150/200 papers on the basis of high sea sales as per instructions of the RNI. The remaining quantity of about 20% was moved into buffer stock at port towns for releasing to the nominees of RNI. Much as the Corporation would prefer to import even small quantities under separate bills of lading for more newspapers, it is not possible to do so as the contracts specify minimum consignment quantity. For instance, the contract concluded with Canada stipulated the minimum quantity as per bill of lading not to be less than 25 tonnes. The USSR, on theother hand, isisted that a minimum quantity per bill of lading should not be less than 200 M.T.

<u>Release from Buffer Stock</u>

It is estimated that about 1500/2000 small newspapers drew their requirements from the STC's buffer stock against authorisation issued in their favour by RNI. A copy of the authorisation was endorsed directly to RNI in favour of the Brandh Office concerned. The authorisation indication the particular port at which niminees had to recieve the supplies from the STC. although the authorisation as per import policy was given for a period of six months from the date of issue, the RMI generally mentioned the fortnight during which material should be lifted. If this was not done, the allottee was required to get the delivery period extended by RNI.

The nominees of RNI were required to prsent their copy of authorisation to theSTC at Bombay, Madras, Cochin and Calcutta as the case may be with payment in full of the sales then in force. The brandh office after collection of payment would issue release order in favour of the paper/ their nominee to take delivery within specified period. If the ratechrge is provisional/conditional, it is made noteof in Money Recipt/M.O.

(viii) Mechanics of Prising

The sale price for high sea was fixed taking into accounts:

- C.I.F. cost at actuals
- L/C license fee at 1% of C.I.F. cost
- Voyage interest for one month at 1.25% of C.I.F. cost (15% of premium)
- STC sevice charges wer at 1% of C.I.F. cost. Whereover there are certain unforeseen factors such as fluctuations in excange rate and iminent increase in other items of expenditure 1/2% of C.I.F. cost is added to the above towars such contingency.

<u>Price for Buffer Stock Sale</u> : This is fixed periodically for 3-4 months on the basis of pooled average price (irrespective of the sources of origin) in respect of quantity expected to be received at various Indian ports. Following elements are taken into account:

| | |
|---|---|
| - C.I.F. cost pooled average | |
| - Import License fee | 1% |
| - L/c charges | |
| - Voyage interest for one month | 1.25% on the basis of 15% per annum |
| - STC service charges | 1% |
| - Import duty | 5% |
| - Stevedoring, clearance, transportation from port to warehouse, etc | 1.25% |
| - Godown rent and insurance for three months | 3.75% on the basis of 15% per annum |
| - Miscellaneous war risks, survey, etc. | 1% |
| - Contigency | 0.50% |
| Total | 16% of C.I.F. |

These charges varied from time to time depending upon the cost. In view of the factors explained above, it would be observed that the STC service charges were restricted to only 1% and the rest of the items go towards meeting the actual expenditure incurred. Price of buffer stock was fixed periodically taking into account the pooled average c.i.f. cost of likely supplies to be needed in the next 3-4 months. The position was reviewed at the end of specific period when any shortfall in the arrival was excess payment etc. which was taken note of and reflected in the release price for the next quarter.

Ex-jelly Sale

In addition to the two types of sales referred above some times if the circumstances so require, STC effected deliveries, ex-jelly itself. Sales price for such sales was fixed taking into account the items of expenditure referred to above in high sea sales, customs duty, handling and clearing charges etc. Sales tax and other local taxes were added to the account of allottee.

This pricing policy had not affected adversely the big newspapers. For they lift their requirements from high seas, eliminating large number of intermediary cost.
But the small user, it was again feared, had to bear nearly 16 per cent higher cost over the high sea sales which was added to his cost.

(ix) Conclusion

The total examination of the newsprint imports leads to certain important conclusions. In achieving the objectives set for canalisation, Government trading had not been fully successful with regard to helping small newspapers. Information gap about the market conditions appears to exist, not only as a result of specific purchase system designed, but also because of inadequate market analysis of the buying agency.

# CHAPTER-V

## CONCLUSIONS & RECOMMENDATION

## CONCLUSIONS AND RECOMMENDATIONS

### Growth of Government Trading in India as an Instrument of Trade Policy :

In India, Government trading has emerged as one of the most powerful instruments of foreign trade policy. The choice of Government trading as an instrument of trade policy dates back to early 50's. But in the late fifties and early sixties, one witnesses effective emergence of this instrument when it was construed as a supplement to other measures of trade policy. The choice of Government trading as a substitute to other measures such ~~of trade policy~~ as (foreign exchange control. (b) fiscal incentives, and (c) quotas and other regulations arose because the Government felt that these measures have not been completely successful in achieving the objectives of trade policy.

Government trading was formally accepted as an instrument of trade policy in 1956 with the establishment of the State Trading Corporation. In 1963, it was further strengthened with the bifurcation of the State Trading Corporation into STC and MMTC (Metals & Minerals Trading Corporation). As a result of the commitment on the part of the party then in power to increasingly bring foreign trade under state control the late seventies witnessed an increased participation of the Government in the foreign trade sector.

Objectives of Government Trading

The main objectives of Government trading as enunciated in the various organisational memoranda and statements made in the Parliament by the Minister incharge of foreign trade are: (a) to enjoy advantages of bulk buying and selling, (b) to ensure equitable distribution of scarce imported material among all claimants, (c) to remove malpractices in certain export and import transactions, (d) to mop up wind-fall profits arising from scarcity at home, (e) to assist small-scale industries in achieving their export targets, (f) to trade with countries having bilateral trade and payments agreements with India, and (g) to take such measures as to increase India's export earnings including provision of export assistance.

While ordering canalisation of certain products, the Government might not have all the above objectives in view but could stipulate either one or two objectives only. Moreover, the declared objective of canalisation might at times differ from the implicit objective, as for example, in the case of canalisation of chillies. While the declared objectives was diversification of markets, the implicit objective was elimination of malpractices adopted by traders.

Share of the Government in India's Foreign Trade

The share of the Government in India's exports increased from 37.49 per cent in 1978-79 to 45.35 per cent in 1981-82 and to 47.06 per cent in 1982-83. Similarly, the share of the Government in Imports increased from 74.26 per cent in 1978-79 to 80.26 per cent in 1981-82 to 82.13 per cent in 1982-83.

The commodities that have been covered by Government trading are varied and large. Inmost of these commodities, the share of the Government had been as high as 70 per cent. In some commodities such as copper, the government is the sole buyer of the product overseas. Similarly in exports, the government has been the major seller of iron ore, caster oil, mica, etc.

Organizational Structure of Government Trading in India

The organisational pattern that has evolved over the period for tackling trading operations by the Government has been a little confusing. Initially, departments and supply mission dominated trading activity, specially in imports. However, of late particularly in the late 60's, this domination had been reduced. The state corporations have come to handle specialised trading. Now state trading corporations such as STC, MMTC handle a large proportion of imports and exports. Their/share in imports has increased

Since 1963, a new principle, i.e., the principle of specialisation has been governing the decision of the choice of the organisation which shall be responsible for handling exports and imports. Organisations are expected to be specialised in trading certain product groups. Thus for the first time, MMTC was created to handle materia minerals and metals. The same principle was applied to the subsidiaries of major trading corporations. These subsidiaries are expected to be specialised in handling specific product groups such as Mica Corporation for mica and Projects & Equipment Corporation in promotion of exports of projects and equipments and Handicrafts and Handloom Export Corporation for handicrafts. The emphasis on specialisation has also made the Government to choose various other organisations to undertake importing and exporting. These organisations include the manufacturing units such as Indian oil and IDPL which import oil, petroleum, and petroleum products and drugs and pharmaceuticals respectively. Similarly, a cooperative of agricultural products was selected to handle exportation of agricultural commodities which were canalised such as chillies, onions, etc. There are also boards such as Silk and Rubber which undertake import of raw materials.

Two significant features of the organisational structure are; (i) limited coordination among various agencies dealing with the trading. In fact, one gets an impression, adn (ii) the organisations are not under any one Ministry dealing with foreign trade namely Ministry of Commerce. They are under administrative supervision of their parent ministries dealing with specific product groups. Thus Indian Oil operates under Ministry of Chemicals and Petroleum. Similarly, agricultural products imports are organised by the Ministry of Agriculture.

Each trading enterprise has no doubt liberty to operate, within certain limits. For instance, transactions below Rs.50 lakhs are permitted within the jurisdiction of trading enterprise and also those transactions which are below Rs. 2crores, are in some way permitted to be handled by organisations concerned. Whenever the transactions to be handled exceed Rs.2 crores, there is a considerable influence of the Government in decision making, since both the Government departments as well as trading enterprise find it convenient to adhere to this system particularly because of convenience of no risk element and the need to carry out certain declared objectives of the Government. On the basis of discussions and the reading of literature in the field, it can be concluded that there is a bit of reservation with regard to risk taking on the part of these enterprises and hence they would prefer to associate ministries in decision making. Further continuous parliamentary probe as well as accountability of the Government trading organisations have made them rely heavily on this supposedly safe mechanism of decision making.

## Achievements and Limitations of Government Trading

On the basis of the study of the following conclusions have been arrived at as regards the achievement of objectives of Government trading.

(a) Bulk Buying : Government trading has been successful in so far as its objective was to avail bulk buying facilities. In any case its performance has not been inferior to that of private enterprise. This has been established by the study of newsprint.imports.

(b) Bulk Selling: With regard to bulk selling objectives, it can be concluded that Government trading has been able to bring about a kind of stability as also substantial increase in exports. The Government trading organisations have effectively negotiated with the buyers as seen in the price negotiation of MMTC with Japanese buyers of iron-ore.

(c) Mopping up of Surpluses : As far as the objective of mopping of surpluses is concerned it has not been pursued with effective policy measures whenever it was deemed important. However, it has not been an important objective of Government trading in practice.

(d) Diversification of Market

The objective of diversification of markets by and large has been achieved. The share of the Japan which is the main buyer has been increased.

(e) Information for Decisions

With regard to collection and processing of adequate information, in case of newsprint, there has been lack of systematic information base for decision making.

(f) Pricing for the domestic consumer

As regards pricing of imported products to the domestic consumers, it is popularly believed that there has been an excessive imposition of cost element through Government trading. But the evidence does not support this. Regarding the demands made by the users that they should be provided with details of the cost compos ition, it needs to be pointed out that it is the prerogative of any enterprises not to disclose details of pricing machanism unless there are sufficient grounds to believe that there has been an excessive element of monopoly pricing. Also, higher prices are sometimes intended as a means of mopping up surpluses. There is also this fact that while such decisions are seemingly made by the enterprise, in actual fact there are designated agencies, as for instance the Pricing Committee in the case of copper, which is headed by the Chief Controller of Imports & Exports and other officials drawn from several Ministries, which lays down the guidelines for prices. The objectives of the Pricing Committee is to pursue a pricing policy in tune with Government priorities. To that extent we can conclude that pricing decisions are beyond the control of Government trading agencies.

(i) Relationship between Government Trading Agencies and Producers and End users.

With regard to mechanism of distribution there is a scope for improvement ~~trading agencies have~~ by speedy disposals. But the Government trading agencies have maintained a close liaison with industry and trade as users. So it has been possible for the Government trading agencies to eliminate some of the delays which occured initially.

With regard to the relationship with the producers, the interest of the Government appears to keep them in picture to the extent possible. It is indeed significant to note that in the case of iron ore, the Government trading agency has been able to help substantially the small scale producers who provide 50-60 per cent of its supplies. In fact in all iron ore producing centres of India, the MMTC has it branches. The committees of iron ore producers can, therefore, have a close liaison with MMTC. Similarly in all canalised have maintained close liaison with producers and consumers of the product. In fact it would seem that the Government trading organisations have placed a greater reliance on judgement of industry and trade than on its own evaluation, as evidence in the case of newsprint imports by the STC. In the case of newsprint imports, the purchase operations have been entirely guided by the Purchasing Committee constituted by the Government and comprising largely the end-users.

(j) Tackling of Strctural Problems : Despite the entry of the Government in trading, the structural problems appear to persist. This is vindicated from the difficulties experienced in the rail movement of iron ore. No doubt railways have their own story to tell such as difficulties of finance in developing exclusively export corridors for the movement of these product groups and ensuring adherence of targetted movement. The factors beyond the control of state enterprises have undoubtedly interfered in the smooth functioning of movements of goods from the sources to ports. For instance, the problems of handling by labourers in loading and unloading which entails considerable amount of time lag and time wastage in movement of iron ore. Secondly, the terrain in Balledila and Vishakhapatnam required a type of wagons which are to be exclusively used for iron ore. These wagons which are known as break line wagons are not available in sufficient numbers. Due to excessive difficulties of railway finances, railways have not been in a position to match this. One of the major objectives of canalisation of iron ore had been to coordinate transportation of iron ore. This has not been achieved to the full satisfaction. It is the same story with regard to port development, despite the demurrage charges that were expected to be borne by the Government enterprise as a result of failure to load the Japanese ships have been negligible. There appears to be bottlenecks in ports as well. Thus it has been proved that the structural problems cannot be movercome by purely institutional mechanism of trade unless effective coordination is developed.

(k) Capacity to Earn Higher-Unit Value Realization:

As regards capacity of Government trading enterprises to realise better unit value for exports through processing of commodities, the experience has not been too happy. For instance, in the case of iron ore, where pelletisation could have boosted the export earnings by at least 25 per cent of f.o.b. value, as evidenced by world trade movements in this commodity, no effort seems to have been made by Government trading enterprises in India. Apparently what is required is a high degree of coordination and cooperation between producing enterprises on the one hand and trading agencies on the other, to tone up operational effeciencies and earn higher prices through a speedy programme of pelletisation.

(l) Adherence to Existing Trading Practices : As regards trading practices, the government enterprises have normally followed existing commercial practices in almost all commodities studied. However, departure from existing norms have been made in certain cases, where the exigencies so warranted. For instance in the case and iron ore, long-term arrangements were required to be entered into, with the objective of reducing the risk element. The commitment of the Government to supply specific quantities of iron ore to Japan obviously sets a boundary condition for the Government trading agency to formulate appropriate strategies. A private enterprises is not bound by such objectives, and the role of Government agency like the MMTC needs to be appreciated in the light of the specific task entrusted to it.

(m) Planning for Exports and Imports : With regard to planning of imports and exports, there is a limited planning done. This may be due to problems arising out of organisation, attitutde to planning and certain external constraints. The organisations normally depend on demand projections of other government agencies such as Planning Commission or various purchasing committees. The trading organisations themselves make little effort to bring about appropriate estimation of demand. The other major problem is the limitation set by the release of foreign exchange. For instance, planned imports may prove to be a difficult proposition because of lack of timely release of foreign exchange; a situation which will arise as a result of scarcity of foreign exchange.

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